



## 2007 Commercial Real Estate Review: 2008 Forecast

By Lang Motes, Senior Vice President

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If you worked in the commercial real estate industry in 2007 it was all you could do to squeeze in one good vacation, mostly because of the intense pace of client transactions. Let's take a look at where we are today and look forward to see what is likely to happen in 2008.

### **Economy.**

If you have listened to or watched any form of media since January 1, 2008, you have likely heard the word "recession", but what is the reality of a U.S. recession or even locally, a Houston recession? At some level people are feeling apprehensive or nervous about the economy, but why? Your business has probably grown every year for the last three to five years and now you are ready to make your next move. You are considering leasing more space, buying a building, or buying land, but you are becoming a little concerned about where the economy is headed and wondering if that should impact your decision. The answer is yes and no and here is why.

The truth is that a lot of people in Houston are in a similar position but even the most prudent commercial real estate owners will weather this storm just fine. If you now own or are considering buying commercial real estate be careful to not get overleveraged through overly creative financing vehicles. What is currently happening to the U.S. housing market will happen in commercial real estate but it does not have to happen to you, so borrow wisely. Secondly, do not overpay for anything. There is a real temptation in the market to buy commercial real estate because it is hot right now. If you have already overpaid, then consider getting out now. A few high risk investors will not make it to the other side without losing some footing and for these investors this could be costly. However, keep in mind that this does not have to happen to you.

Despite all of the economic rumblings and political ramblings we are optimistic about the Houston commercial real estate prospects for 2008. Here is what we see as the 2008 U.S. and Houston commercial regions real estate forecast.

### **Office**

- U.S. demand is falling and Houston demand will fall as well but only moderately
- U.S. lease rates will continue dropping but Houston will see only slight declines in rates
- U.S. and Houston absorption will be slower
- U.S. and Houston cap rates will slowly increase as a result of some overpriced buildings

### **Retail**

- U.S. demand will continue falling and Houston demand will fall as well
- U.S. lease rates will drop but Houston will see its biggest leasing problems in poorly positioned assets
- U.S. and Houston absorption will be slow
- U.S. and Houston cap rates are trying to hold but will begin to increase after first quarter

### **Industrial**

- U.S. demand will continue falling and Houston demand will slowly follow.
- U.S. and Houston lease rates will remain steady
- U.S. and Houston absorption will be slow because of supply outpacing demand
- U.S. and Houston cap rates will hold



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**The good news is that the future of the Houston region is promising and commercial real estate values are still holding steady.**

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